FISCAL NOTE

Bill #:	SB0521	**Title:**	Alternative minimum corporate license tax
Primary Sponsor:	Elliott, J	**Status:**	As Amended in Senate Committee

Sponsor signature	Date	David Ewer, Budget Director	Date

Fiscal Summary

	FY 2006 Difference	FY 2007 Difference
Expenditures:		
General Fund	$0	$0
Revenue:		
General Fund	$0	$1,276,000
Net Impact on General Fund Balance:	$0	$1,276,000

- ☐ Significant Local Gov. Impact
- ☐ Technical Concerns
- ☐ Included in the Executive Budget
- ☒ Significant Long-Term Impacts
- ☐ Dedicated Revenue Form Attached
- ☐ Needs to be included in HB 2

Fiscal Analysis

ASSUMPTIONS:

1. This bill would be effective on January 1, 2006, and would apply to tax years beginning after December 31, 2005.
2. Under current law, the minimum corporation license tax is $50. Under this bill, the minimum tax would be the greater of the regular tax of 6.75% of net income, or the new alternative minimum tax (AMT), but in no case less than $50.
3. The new alternative minimum tax would be calculated as 4.75% of the corporation's book income for the preceding tax year. Book income is net income calculated according to generally accepted accounting principles (GAAP) for financial accounting. The new AMT would apply to corporations with at least $20 million in total annual sales, or at least $4 million in total annual payroll.
4. Book income information for many corporations is readily available. Many corporations are required to file publicly-available, GAAP-compliant, audited financial reports with the Securities and Exchange Commission (SEC). These include all publicly traded corporations, as well as privately held corporations that have debt securities that are registered with the SEC.
5. The starting point for the impact analysis associated with this bill is a database of Montana corporate license tax returns for FY 2003, that contains about 16,400 records. The database was screened to remove tax-exempt corporations, inactive corporations, and returns for prior years, leaving about 13,300 records. The next step was to remove all corporations that did not have at least $20 million in sales or at least $4

million in total annual payroll. This left a data set of about 2,700 records. Corporations that operate only in Montana are not required to report apportionment data (sales, payroll, and property). As a result, these 2,700 records include only the interstate corporations subject to apportionment.

6. A sample of 34 corporations was selected for fiscal impact analysis. The SEC's online database of financial reports was used to collect the 10-K report data (annual financial report) for each corporation that was necessary to conduct the analysis. 10-K reports could not be found for 7 of the companies, reducing the sample to 27. Information from the 10-K reports was examined and compared to information in the corporation tax database to ensure that the business units being analyzed were the same in each case. It was determined that for 4 members of the sample, the business units were not comparable, leaving a sample of 23 corporations.
7. The 10-K data was then used to calculate the new alternative minimum tax (AMT) for each of the 23 corporations. The AMT for each corporation was compared to the actual Montana tax liability (current law tax) in the database. For 9 of the 23 corporations, the AMT was higher than the current law tax. Under the proposed law, the actual tax for each corporation would be the greater of the tax as calculated under current law or the AMT, with a minimum of $50.
8. The estimated total increase in tax for the 23 companies in the sample was $4.25 million per year. Extrapolating this result to the 2,700 companies resulted in an estimated increase in total annual corporate license tax collections of $6.6 million. (The 23 companies represented the vast majority of the total sales, and total tax liability of all companies in this sample.)
9. This $6.6 million is for interstate corporations only. Montana-only corporations typically pay about 25% of the corporate license tax, and interstate corporations pay about 75%. Adjusting the $6.6 million impact to include Montana-only corporations results in an annual impact of $8.8 million (=$6.6 million / 75%). Based on an analysis of the timing of corporate license tax collections conducted by the Office of Tax Policy and Research, there would be no increase in revenues in FY2006; 14.5% ($1.276 million) of the annualized increase will be realized in FY 2007, and the full increase would be realized starting in FY 2008.
10. This bill would have no administrative impact on the Department of Revenue.

FISCAL IMPACT:

	FY 2006 Difference	FY 2007 Difference
Revenues:		
General Fund (01)	$0	$1,276,000
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):		
General Fund (01)	$0	$1,276,000

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:
None.

LONG-RANGE IMPACTS:
This bill would increase state general fund revenue by about $8.8 million annually for the foreseeable future, starting in FY 2008.